

Mass Media Coverage

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Can We Teach Business "Social Responsibility"?

A Guest Editorial by J. Scott Armstrong

Pretend you are on the board of directors of a drug company that manufactures a medication known to be dangerous. Your company has invested a sizeable fund to develop the drug. Unfortunately, although it does cure some people, the drug will, probably cause about 18 deaths a year if you continue to sell it. At the same time your company stands to earn at least 818 million a year. Competing companies sell a similar drug at the same price. Their drug cures the same illnesses but it does not have serious side effects and will probably not be fatal for any patient.

Will you as a director permit your company to continue to sell the dangerous drug or will you order the immediate withdrawal of the medication to protect the few patients who may be hurt by it?

We have used that example in a five-year study of the decision-making process as it relates to responsible or irresponsible decisions.

Almost everyone who has been asked about this case feels that the responsible decision is to take the drug off the market immediately. However, when we asked people to play the role of a director of that company, none of the 57 groups decided to remove that drug from the market.

Few of these people who took part in our study were actually real-life directors of any major companies. Still most of them were involved in business organizations so that they had some ideas about how corporate directors should or would act. And when they pretended to be directors of that drug company, none of these groups chose what we call "the responsible" decision of taking the drug off the market.

The aim of our study was to find out whether managers will take reasonable precautions to protect employees, consumers, and other groups from serious and unnecessary harm. The conclusion was shocking: a substantial portion of all corporate managers can be expected to make irresponsible decisions. The nature of the harm that they may cause has little effect upon their decisions. They adhere closely to their prescribed role

(as agents of the stockholders in this case), and they do not feel responsible for preventing harmful side effects.

Obedience to their role was the prime reason why groups in the study made the irresponsible decision to leave the dangerous drug on the market. Most managers believe they are doing what is right when they protect the interests of the stockholders. That is their proper "role," one that has been handed down to them by our social traditions. For instance, the U.S. legal system has advocated this stockholder role for managers. It has recognized that directors should have "a single minded duty of unswerving loyalty to the stockholders and only to the stockholders." In this way, the legal system has relieved the managers of the responsibility for assessing the impact of their decisions upon other interested groups.

Take air pollution as an example. The corporate manager is willing to allow his organization to pollute the air as long as there is no objection from the public or from public authorities. Few managers feel required to clean up dangerous gases emitted from their factories as long as there is no outside threat to producing a profit. (Obviously now, some managers go beyond their role to solve the problem, but they are the exceptions.) Only when there were threats to boycott a firm's product, or to otherwise interfere with its income or assets, would most managers consider assigning funds to maintain clean air. In that case, the stockholders are profiting from an asset that belongs to the whole community. That asset – clean air – is used and misused by the company so that the stockholders gain in the transaction and the community loses.

In theory, such irresponsible actions would be punished if we had a "perfect market" – one in which competition is strong and the organization pays for all the resources it uses. But the market we live in is "imperfect" – giving some groups rewards they do not deserve and taking away resources from others without giving any rewards in return. The perfect market should punish the air polluter for misusing that asset.

Our drug company, of course, is another illustration of the imperfect market because the company would not be penalized for endangering the lives of a few people. Instead, they gained from this transaction.

Some observers have suggested that proper education might reduce socially irresponsible decision making. Others have proposed a better selection procedure for key managers, one that emphasizes the human side of decisions. Still others have suggested that when the younger generation with their new ethical standards gains key management positions, the situation will change. Unfortunately, our evidence suggests that none of these actions aimed at the individual has a significant beneficial effect. They are expensive solutions that do nothing.

The problem does not lie in the individual but in our institutions. What is needed is a change in the role of the managers as our society defines it. In our study, we experimented with the “stakeholder role” for managers. Here the manager is responsible for and reports to each of the interest groups affected by the actions of his organization. This means that the manager should serve many masters – he would serve the stockholders but would also protect the interests of the employees, of consumers, of the local community, and he would avoid bringing unnecessary harm upon his competitors.

We see this stakeholder role now becoming accepted as an ideal in some corporations. The most visible example is the decision to place representatives of different groups on the hoards of directors of some corporations.

In our role playing, some groups were told that their board had previously agreed to adopt the stakeholder role. An alternative approach was to use board of directors that were composed of representatives from differ-

ent interest groups. But the managers had great difficulty in performing in the stakeholder’s role – even when they believed in it. It was a difficult role to maintain in the group. In fact, we were initially unable to convince groups to adopt such a role. They continued to make irresponsible decisions.

Another approach to changing the role of the manager is to use social accounting. The idea here is that if you provide measures that show how their decisions affect each interest group, they will be more concerned about the stakeholders. This also is a strategy that has been gaining popularity among corporations. For example, an increasing amount of space is being devoted in annual reports to examining how the company has met the needs of each of its stakeholders.

Strangely, in our role playing, social accounting had no effect on the decision making. Groups continued to make irresponsible decisions.

It was only when we *combined* these two techniques – the stakeholder role and the social accounting – that managers were willing to reject socially irresponsible decisions. The two techniques reinforce each other. Together they produce a significant reduction in the level of irresponsibility among our decision makers. The stakeholder role makes social accounting legitimate and social accounting provides the necessary information for those using the stakeholder role.

Can we teach social responsibility? Probably not. It seems unlikely that efforts to educate individuals will have much impact: the role is too strong. Good people will continue to make irresponsible decisions. A change in our institutions and our laws would help; the adoption of the stakeholder role along with social accounting should make our organizations more humane and help them to live in harmony with society.
